

# Moving on up

By [JOHN HARRINGTON](#) - IR Business Editor - 07/09/06

## **Housing board reimbursing tax that put burden on upward mobility of homeowners**

A tax doesn't always have to be paid by a lot of people to have a dampening effect on upward mobility. That was the thinking of the Montana Board of Housing, which recently announced plans to reimburse a rarely triggered federal tax on people who take advantage of the board's First-time Homebuyer Program.

The "recapture tax," put into place by the IRS 20 years ago, applied to program participants who sold the home within nine years and exceeded income and sale price limits. In some people's view, the tax punished successful people who used the homebuyers program to build equity, then outgrew the house or could soon afford more.

So, at its May meeting, the board voted to reimburse any program participants who have to pay the tax upon selling their homes.

Spokeswoman Anastasia Burton of the Montana Board of Housing said it's tough to know exactly how many people have paid the tax, since it's a matter between the IRS and the taxpayer. Anecdotally, though, she said the department has heard of fewer than five cases in recent years.

But, she added, the threat of it may have caused hesitation to some buyers who expected to move up within the nine-year time frame.

"This removes a barrier, whether legitimate or conceived, to individuals or families interested in using Montana Board of Housing programs," Burton said.

The program, begun in 1977, offers qualified borrowers an interest rate typically one-half or three-quarters of a point below market rates, along with other incentives. The Board of Housing issues tax-exempt Mortgage Revenue Bonds to fund the loans.

"The bigger advantage is the fact that there's no origination fee charged to the borrower, so it reduces the cash (needed) to close," said Gail Mann, assistant vice president in real estate at American Federal Savings Bank, one of several area banks that participate in the program. "One of the biggest barriers for a lot of these borrowers is not the monthly payment, it's not having enough cash to close, so this can be a huge help to get them into the house."

John and Karen Richem bought their first home, off Green Meadow Drive, last year through the First-time Homebuyers Program. Karen Richem said the couple figures the lower interest rate available through the program saves them close to \$100 a month on their mortgage payment.

She said the recapture tax caused the couple “a little bit” of concern, although “we’re comfortable with the home we bought and figured we’d be there a while.”

Richem said her experience with the program was “very positive” and that she’s recommending it to friends and family.

“I’ve got a brother and sister-in-law looking to move to the area, and we’re encouraging them to go through the classes and use the program,” she said.

American Federal’s Mann said the recapture tax, though rarely triggered, would give some buyers pause.

“For those that are upwardly mobile, it would deter them sometimes,” she said. “Say one spouse was through college and making a good salary and the other was in college but expected to also earn a good salary, they might say, ‘I don’t think we want to go there.’”

Burton said that since the program’s inception, 2,335 families in Lewis and Clark County have used it to borrow \$145.4 million to buy their first homes.

[John Harrington](#) can be reached at 447-4080 or [john.harrington@helenair.com](mailto:john.harrington@helenair.com).